

**CITY OF PAWNEE ROCK, KANSAS**

Financial Statements With Independent Auditors' Report

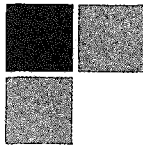
For the Year Ended December 31, 2011

**CITY OF PAWNEE ROCK, KANSAS**  
Financial Statements With Independent Auditors' Report  
For the Year Ended December 31, 2011

---

**TABLE OF CONTENTS**

Independent Auditors' Report .....	1
Statement 1 – Summary of Cash Receipts, Expenditures and Unencumbered Cash .....	2
Statement 2 – Summary of Expenditures - Actual and Budget .....	3
Statement 3 – Statement of Cash Receipts and Expenditures - Actual and Budget Individually Presented by Fund	
<b>Governmental Fund Categories</b>	
<b>General Fund</b>	
3-1 General Fund .....	4
<b>Special Revenue Funds</b>	
3-2 Special Highway Fund .....	5
3-3 Capital Improvements Fund .....	6
<b>Debt Service Fund</b>	
3-4 Debt Service Fund .....	7
<b>Proprietary Fund Category</b>	
<b>Enterprise Funds</b>	
3-5 Refuse Fund .....	8
3-6 Sewer Fund .....	9
3-7 Water Fund .....	10
3-8 Water Principal and Interest Fund .....	11
3-9 Bond Reserve Fund .....	12
Notes to Financial Statements .....	13



Certified  
Public  
Accountants

## INDEPENDENT AUDITORS' REPORT

To the City Council  
**City of Pawnee Rock, Kansas**  
Pawnee Rock, Kansas

We have audited the accompanying financial statements of **City of Pawnee Rock, Kansas**, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of **City of Pawnee Rock, Kansas'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, **City of Pawnee Rock, Kansas** has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, whose practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **City of Pawnee Rock, Kansas**, as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **City of Pawnee Rock, Kansas**, as of December 31, 2011, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

*Adams, Brown, Beran & Ball, Chtd.*

**ADAMS, BROWN, BERAN & BALL, CHTD.**  
Certified Public Accountants

July 30, 2012

**CITY OF PAWNEE ROCK, KANSAS**  
Summary of Cash Receipts, Expenditures and Unencumbered Cash  
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
<b>Governmental Fund Categories</b>							
General Fund	\$ 161,689	-	123,287	104,187	180,789	6,246	187,035
<b>Special Revenue Funds</b>							
Special Highway Fund	(407)	-	7,475	7,068	-	385	385
Capital Improvements Fund	6,000	-	-	-	6,000	-	6,000
Debt Service Fund	6,161	-	4,768	10,929	-	-	-
<b>Proprietary Fund Category</b>							
<b>Enterprise Funds</b>							
Refuse Fund	3,320	-	22,214	24,135	1,399	1,984	3,383
Sewer Fund	-	-	26,861	26,861	-	-	-
Water Fund	687	-	41,258	27,706	14,239	304	14,543
Water Principal and Interest Fund	2,558	-	4,100	6,658	-	-	-
Bond Reserve Fund	5,000	-	-	5,000	-	-	-
<b>Total Reporting Entity</b>	<b>\$ 185,008</b>	<b>-</b>	<b>229,963</b>	<b>212,544</b>	<b>202,427</b>	<b>8,919</b>	<b>211,346</b>
<b>Composition of Cash</b>					Checking Accounts	\$	53,366
					Money Market		32,184
					Certificates of Deposit		125,580
					Petty Cash		216
					<b>Total Reporting Entity</b>	<b>\$</b>	<b>211,346</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Summary of Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2011**

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
<b>Governmental Fund Categories</b>					
<b>General Fund</b>	\$ 274,342	-	274,342	104,187	(170,155)
<b>Special Revenue Fund</b>					
Special Highway Fund	9,343	-	9,343	7,068	(2,275)
<b>Debt Service Fund</b>	11,856	-	11,856	10,929	(927)
<b>Proprietary Fund Category</b>					
<b>Enterprise Funds</b>					
Refuse Fund	27,644	-	27,644	24,135	(3,509)
Sewer Fund	36,408	-	36,408	26,861	(9,547)
Water Fund	35,100	-	35,100	27,706	(7,394)

The notes to the financial statements are an integral part of this statement.

## CITY OF PAWNEE ROCK, KANSAS

## General Fund

## Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 35,370	40,299	45,147	(4,848)
Delinquent Tax	1,758	4,705	2,000	2,705
Motor Vehicle Tax	7,427	11,417	11,781	(364)
Recreational Vehicle Tax	-	115	70	45
16/20M Vehicle Tax	-	196	82	114
Sales Tax	35,890	36,738	38,500	(1,762)
Franchise Fees	8,080	7,711	5,500	2,211
Fire Contract	6,500	4,500	4,500	-
Licenses, Permits and Miscellaneous	607	30	750	(720)
Interest	2,115	1,776	2,500	(724)
Reimbursed Expenses	653	1,081	-	1,081
Delinquent Account Collections	350	31	-	31
Sale of Assets	2,750	14,612	-	14,612
Transfers In	-	76	106	(30)
<b>Total Cash Receipts</b>	<b>101,500</b>	<b>123,287</b>	<b>110,936</b>	<b>12,351</b>
<b>Expenditures</b>				
General Government				
Personal Services	10,181	13,370	15,000	(1,630)
Contractual Services	57,851	56,221	75,000	(18,779)
Commodities	12,956	7,207	12,000	(4,793)
Capital Outlay	81,657	8,747	120,342	(111,595)
Employee Benefits	4,188	5,246	3,500	1,746
Park Department	-	-	2,500	(2,500)
Summer Recreation	760	666	1,500	(834)
Fire Department	10,723	8,018	15,000	(6,982)
Street Improvements	-	1,530	10,000	(8,470)
Interest Payments	4,366	2,955	-	2,955
Service Fees	500	227	-	227
Transfers Out	1,000	-	19,500	(19,500)
<b>Total Expenditures</b>	<b>184,182</b>	<b>104,187</b>	<b>274,342</b>	<b>(170,155)</b>
<b>Cash Receipts Over (Under) Expenditures</b>	<b>(82,682)</b>	<b>19,100</b>		
<b>Unencumbered Cash - Beginning</b>	<b>244,371</b>	<b>161,689</b>		
<b>Unencumbered Cash - Ending</b>	<b>\$ 161,689</b>	<b>180,789</b>		

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Special Highway Fund**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Taxes and Shared Revenues				
State Gasoline Tax	\$ 8,727	7,475	9,080	(1,605)
<b>Expenditures</b>				
Contractual Services	4,895	4,813	5,000	(187)
Commodities	4,812	2,255	4,343	(2,088)
<b>Total Expenditures</b>	9,707	7,068	9,343	(2,275)
<b>Cash Receipts Over (Under) Expenditures</b>	(980)	407		
<b>Unencumbered Cash - Beginning</b>	573	(407)		
<b>Unencumbered Cash - Ending</b>	\$ (407)	-		

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Capital Improvements Fund**  
**Statement of Cash Receipts and Expenditures**  
**For the Year Ended December 31, 2011**  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
<b>Cash Receipts</b>		
Transfers In	\$ 1,000	-
<b>Expenditures</b>	-	-
<b>Cash Receipts Over (Under) Expenditures</b>	1,000	-
<b>Unencumbered Cash - Beginning</b>	5,000	6,000
<b>Unencumbered Cash - Ending</b>	\$ 6,000	6,000

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Debt Service Fund**  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Taxes and Shared Revenues				
Motor Vehicle Tax	\$ 2,211	668	-	668
Transfers In	11,700	4,100	4,000	100
<b>Total Cash Receipts</b>	13,911	4,768	4,000	768
<b>Expenditures</b>				
Commissions and Fees	3	3	50	(47)
Interest Payments	1,700	850	1,700	(850)
Principal Payments	10,000	10,000	10,000	-
Transfers Out	-	76	106	(30)
<b>Total Expenditures</b>	11,703	10,929	11,856	(927)
<b>Cash Receipts Over (Under) Expenditures</b>	2,208	(6,161)		
<b>Unencumbered Cash - Beginning</b>	3,953	6,161		
<b>Unencumbered Cash - Ending</b>	\$ 6,161	-		

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Refuse Fund**  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Charges	\$ 23,496	22,214	25,000	(2,786)
<b>Expenditures</b>				
Contractual Services	23,093	24,135	27,644	(3,509)
<b>Cash Receipts Over (Under) Expenditures</b>	403	(1,921)		
<b>Unencumbered Cash - Beginning</b>	2,917	3,320		
<b>Unencumbered Cash - Ending</b>	\$ 3,320	1,399		

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Sewer Fund**  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Charges	\$ 18,942	21,299	30,000	(8,701)
Improvement Revenue	6,234	5,562	6,000	(438)
<b>Total Cash Receipts</b>	25,176	26,861	36,000	(9,139)
<b>Expenditures</b>				
Contractual Services	-	-	2,000	(2,000)
Commodities	-	-	1,000	(1,000)
Principal Payments	24,546	25,226	25,226	-
Interest Payments	631	1,424	4,379	(2,955)
Service Fee	-	211	438	(227)
Capital Outlay	-	-	3,365	(3,365)
<b>Total Expenditures</b>	25,177	26,861	36,408	(9,547)
<b>Cash Receipts Over (Under) Expenditures</b>	(1)	-		
<b>Unencumbered Cash - Beginning</b>	1	-		
<b>Unencumbered Cash - Ending</b>	\$ -	-		

The notes to the financial statements are an integral part of this statement.

## CITY OF PAWNEE ROCK, KANSAS

## Water Fund

## Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Charges	\$ 32,753	32,853	29,500	3,353
Meter Deposits	601	810	500	310
Water Tax	560	37	100	(63)
Transfers In	-	7,558	5,000	2,558
<b>Total Cash Receipts</b>	<b>33,914</b>	<b>41,258</b>	<b>35,100</b>	<b>6,158</b>
<b>Expenditures</b>				
Operations	21,622	23,606	33,658	(10,052)
Transfers Out	11,608	4,100	1,442	2,658
<b>Total Expenditures</b>	<b>33,230</b>	<b>27,706</b>	<b>35,100</b>	<b>(7,394)</b>
<b>Cash Receipts Over (Under) Expenditures</b>	<b>684</b>	<b>13,552</b>		
<b>Unencumbered Cash - Beginning</b>	<b>3</b>	<b>687</b>		
<b>Unencumbered Cash - Ending</b>	<b>\$ 687</b>	<b>14,239</b>		

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Water Principal and Interest Fund**  
 Statement of Cash Receipts and Expenditures  
 For the Year Ended December 31, 2011  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
<b>Cash Receipts</b>		
Transfers In	\$ 11,608	4,100
<b>Expenditures</b>		
Transfers Out	11,700	6,658
<b>Cash Receipts Over (Under) Expenditures</b>	(92)	(2,558)
<b>Unencumbered Cash - Beginning</b>	2,650	2,558
<b>Unencumbered Cash - Ending</b>	\$ 2,558	-

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
**Bond Reserve Fund**  
 Statement of Cash Receipts and Expenditures  
 For the Year Ended December 31, 2011  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
<b>Cash Receipts</b>	\$ -	-
<b>Expenditures</b>		
Transfers Out	-	5,000
<b>Cash Receipts Over (Under) Expenditures</b>	-	(5,000)
<b>Unencumbered Cash - Beginning</b>	5,000	5,000
<b>Unencumbered Cash - Ending</b>	\$ 5,000	-

The notes to the financial statements are an integral part of this statement.

**CITY OF PAWNEE ROCK, KANSAS**  
Notes to Financial Statements  
December 31, 2011

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**City of Pawnee Rock, Kansas** has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

**Reporting Entity**

The City is a municipal corporation governed by an elected Mayor and five-member council. The financial statements of the City consist of all the funds of the City that are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The City has no component units.

**Use of Estimates**

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from these estimates.

**Basis of Presentation – Fund Accounting**

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the City for the year ended December 31, 2011.

**Governmental Fund Categories**

**General Fund** – to account for all financial resources except those required to be reported in another fund.

**Special Revenue Funds** – to account for the proceeds of specific revenue sources that are legally restricted to expenditure for a specified purpose.

**Debt Service Fund** – to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Proprietary Fund Category**

**Enterprise Funds** – to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**CITY OF PAWNEE ROCK, KANSAS**

Notes to Financial Statements

December 31, 2011

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Statutory Basis of Accounting**

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

**Departure From Accounting Principles Generally Accepted in the United States of America**

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

**Budgetary Information**

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget.

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

**CITY OF PAWNEE ROCK, KANSAS**  
Notes to Financial Statements  
December 31, 2011

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, permanent funds, and the following special revenue fund: Capital Improvements Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

**Deposits and Investments**

The City follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary of cash receipts, expenditures, and unencumbered cash.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City does not use "peak periods". All deposits were legally secured at December 31, 2011.

**CITY OF PAWNEE ROCK, KANSAS**  
Notes to Financial Statements  
December 31, 2011

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

At December 31, 2011, the City's carrying amount of deposits was \$211,346 and the bank balance was \$205,410. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, all was covered by federal depository insurance.

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The City had no investments at December 31, 2011.

**Compensated Absences**

**Vacation and Sick Leave**

The policy for full-time employees is as follows:

<u>Year of Continuous Employment</u>	<u>0 to 2</u>	<u>3 to 5</u>	<u>6 and Over</u>
Sick Leave	4 hours/month	6 hours/month	8 hours/month
Vacation	96 hours/year	144 hours/year	192 hours/year

Part-time employees who work at least 20 hours or more per week shall earn vacation and sick leave at the rate of one-half of the rate of full-time employees.

Sick leave is earned on a per pay period basis. The maximum amount of sick leave that can be accumulated per employee is 120 hours. Upon termination, an employee will be compensated for any earned but unused sick leave at the employee's final rate of pay. There was no accrued sick leave as of December 31, 2011.

Vacation is earned at the beginning of the year and may be used anytime during the year; however, no vacation may be taken during the first 90 days of employment. Upon termination, an employee shall not be compensated for any earned but unused vacation. Also, all vacation must be used in the calendar year in which it was earned.

**Compensatory Time** – An employee can earn comp time after working 40 hours per week. It is calculated at time and one-half. Compensatory time off that is accrued by an employee for overtime worked shall be taken within two pay periods following the period in which it was earned. There was no accrued comp time as of December 31, 2011.

**Defined Benefit Pension Plan**

**Plan Description**

The City contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100; Topeka, KS 66603-3869) or by calling 1-888-275-5737.

**Funding Policy**

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% and 6% (if hired on or after July 1, 2009) of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer

# CITY OF PAWNEE ROCK, KANSAS

## Notes to Financial Statements

December 31, 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 was 7.74% and 14.42% for KPERS retirees. The City's employer contributions to KPERS for the years ending December 31, 2011, 2010 and 2009 were \$1,545, \$1,004, and \$0, respectively, equal to the required contributions for 2011 and 2010 as set forth by the legislature. Required contributions of \$469 for 2009 were made in 2010.

#### Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

#### Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts.

#### Reimbursements

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

### NOTE 2 – INTERFUND TRANSFERS

Interfund transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis as authorized by Kansas statutes. **City of Pawnee Rock, Kansas'** interfund transfers and statutory authority for the year ended December 31, 2011 were as follows:

From	To	Statutory Authority	Amount
Water Principal and Interest Fund	Debt Service Fund	K.S.A. 12-825d	\$ 4,100
Water Principal and Interest Fund	Water Fund	Closing Fund	2,558
Water Fund	Water Principal and Interest Fund	K.S.A. 12-825d	4,100
Debt Service Fund	General Fund	K.S.A. 10-117a	76
Bond Reserve Fund	Water Fund	Bond Resolution	5,000

### NOTE 3 – LITIGATION

**City of Pawnee Rock, Kansas** is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

**CITY OF PAWNEE ROCK, KANSAS**  
Notes to Financial Statements  
December 31, 2011

---

**NOTE 4 – RISK MANAGEMENT**

**City of Pawnee Rock, Kansas** carries commercial insurance for risks of loss, including property, general liability, inland marine, workers' compensation, automobile, umbrella, linebacker and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 5 – GRANTS AND SHARED REVENUES**

**City of Pawnee Rock, Kansas** participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audit, is not believed to be material.

**NOTE 6 – COMPARATIVE DATA**

Comparative data for the prior year has been presented in Statement 3 in the accompanying financial statements in order to provide an understanding of changes in **City of Pawnee Rock, Kansas'** cash and unencumbered cash balances. However, complete comparative data (presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

**NOTE 7 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Per K.S.A. 12-1608, the City treasurer should publish annual financial statements 30 days after December 31st. The financial statements were not published until July of 2012.

**NOTE 8 – DEBT RESTRICTIONS AND COVENANTS**

**City of Pawnee Rock, Kansas** entered into a loan agreement with the Kansas Department of Health and Environment to fund the improvements to the water system in the amount of \$80,000.

**Dedicated Revenues**

Per the loan agreement, the City is to establish a dedicated source of revenue and pledge it to the loan repayments. The City did not generate enough revenue in the sewer fund to pay 100% of the loan principal, interest and fee payments for 2011.

**Performance Under Loan Agreement**

The City agreed to comply with all applicable state and federal laws, rules and regulations and to cooperate with KDHE in the observance and performance of the respective duties, covenants, obligations and agreements of the City and KDHE. The City is in compliance with this requirement as of December 31, 2011.

**Operations and Maintenance of System**

The City agrees at all times to a) operate the properties of its System in an efficient manner in accordance with applicable laws and regulations, b) maintain its System making all necessary and proper repairs, renewals, replacements, additions, betterments and improvements necessary to maintain its System in good repair, working order and operating condition, c) implement any modification of the rates, fees and charges for use of the System that comprise a dedicated source of revenues as may require to ensure repayment of the loan in

**CITY OF PAWNEE ROCK, KANSAS**  
Notes to Financial Statements  
December 31, 2011

---

**NOTE 8 – DEBT RESTRICTIONS AND COVENANTS (continued)**

accordance with the provisions of the loan act. The City did raise its sewer rate toward the end of the year, but the rate increase did not occur soon enough to provide sufficient revenues to pay for the loan principal, interest and fees.

**Disposition of System**

The City shall not sell, lease or otherwise transfer ownership of all or substantially all of its System without the consent of KDHE. The City is in compliance with this requirement as of December 31, 2011.

**Accurate Records**

The City shall keep accurate records and accounts for its System separate and distinct from its other records and accounts. The City is in compliance with this requirement as of December 31, 2011.

**Inspection**

The City shall permit the EPA, KDHE and any party designated by KDHE to examine, visit and inspect at any and all reasonable times the property and to inspect and make copies of any accounts, books and records. The City is in compliance with this requirement as of December 31, 2011.

**Financial Information**

The City agrees to provide KDHE a reasonable number of copies of financial information and operating data of the City and its System. The City is in compliance with this requirement as of December 31, 2011.

**Insurance**

The City will carry and maintain such reasonable amount of all-risk insurance on all properties and all operations of its System as would be carried by similar municipal operations of systems. The City will also carry general liability insurance in amounts not less than the maximum liability of a city for claims arising out of a single occurrence as provided by the Kansas Tort Claims Act or other similar future law (currently \$500,000 per occurrence). The City is in compliance with this requirement as of December 31, 2011.

**Assignment**

The loan agreement may not be assigned by the City for any reason, unless approved by KDHE. The City is in compliance with this requirement as of December 31, 2011.

**NOTE 9 – LONG-TERM DEBT**

**City of Pawnee Rock, Kansas** has the following types of long-term debt.

**Water System Revenue Bonds – Series 1989** – The City issued \$80,000 in water system revenue bonds in 1989 to help pay for the water system improvements. The revenue bonds were paid in full in 2011.

**Revolving Loan** – The City entered into a revolving loan agreement with the Kansas Department of Health and Environment on November 19, 2004 for the purpose of improvements to its wastewater treatment facility. The KDHE approved a Kansas Water Pollution Control Revolving Loan in the amount of \$459,808 to help pay for the construction of a new lift station with a standby generator and a two cell upgrade non-overflowing waste water treatment lagoon system. These funds will be used as the required "local" funds disbursed in order to qualify for the Community Development Block Grant. The City does not believe as of December 31, 2011 that it will need the total loan amount of \$459,808 to finance the construction. The total amount of the loan is shown as a long-term liability in footnote 9 as the actual amount of loan proceeds used as of December 31, 2011 and the payments are based on the loan balance incurred as of that date.

**CITY OF PAWNEE ROCK, KANSAS**  
Notes to Financial Statements  
December 31, 2011

**NOTE 9 – LONG-TERM DEBT (continued)**

Changes in long-term liabilities for the City for the year ended December 31, 2011, were as follows:

	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
<b>Revenue Bond</b>										
Water System										
Series 1989	8.25%-8.5%	07/1989	\$ 80,000	2011	\$ 10,000	-	10,000	( 10,000)	-	850
<b>KDHE Loan</b>										
Kansas Water Pollution										
Control - Revolving										
Loan Fund – Sewer	2.75%	11/19/2004	459,808	2017	<u>181,438</u>	<u>-</u>	<u>25,226</u>	<u>( 25,226)</u>	<u>156,212</u>	<u>4,379</u>
<b>Total Contractual Indebtedness</b>					<b>191,438</b>	<b>-</b>	<b>35,226</b>	<b>-</b>	<b>156,212</b>	<b>5,229</b>
<b>Compensated Absences</b>										
					<u>215</u>	<u>-</u>	<u>215</u>	<u>( 215)</u>	<u>-</u>	<u>-</u>
<b>Total Long-Term Debt</b>					<b>\$ 191,653</b>	<b>-</b>	<b>35,441</b>	<b>( 35,441)</b>	<b>156,212</b>	<b>5,229</b>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>YEAR</u>						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
<b>Principal</b>							
Kansas Water Pollution Control							
- Revolving Loan Fund- Sewer	\$ 25,924	26,642	27,380	28,138	28,917	19,211	156,212
<b>Interest</b>							
Kansas Water Pollution Control							
- Revolving Loan Fund- Sewer	<u>3,744</u>	<u>3,092</u>	<u>2,421</u>	<u>1,732</u>	<u>1,023</u>	<u>296</u>	<u>12,308</u>
<b>Total Principal and Interest</b>	<b>\$ 29,668</b>	<b>29,734</b>	<b>29,801</b>	<b>29,870</b>	<b>29,940</b>	<b>19,507</b>	<b>168,520</b>